COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: December 11, 2012

CATEGORY: Public Hearing

DEPT.: Community Development

TITLE: **Adoption of Resolutions for Increases to the Housing Impact Fee for Nonresidential Development and a New Rental Housing Impact Fee**

RECOMMENDATION

1. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MOUNTAIN VIEW TO AMEND THE EXISTING HOUSING IMPACT FEE SCHEDULE FOR NEW NONRESIDENTIAL DEVELOPMENT, to be read in title only, further reading waived (Attachment 1 to the staff report).

2. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MOUNTAIN VIEW ESTABLISHING A RENTAL HOUSING IMPACT FEE FOR NEW MARKET-RATE RENTAL HOUSING DEVELOPMENT, to be read in title only, further reading waived (Attachment 2 to the staff report).

BACKGROUND

A public hearing to adopt a rental housing impact fee for new apartment development had been scheduled for November 13, 2012. The same night, the Council held a Study Session to review the results of a Jobs Housing Nexus Study concerning possible fee increases for nonresidential development. At their Regular Meeting, the Council decided to continue the public hearing on the rental housing impact fee to December 11, 2012, so that both the rental housing impact fee and possible increases to the Housing Impact Fee for nonresidential development could be considered at the same time.

The results of the Jobs Housing Nexus Study on nonresidential development indicated that the Council could increase the City's existing Housing Impact Fees. Several Councilmembers wanted to consider the rental housing impact fee and any increases to the nonresidential Housing Impact Fee at the same time. Council directed staff to prepare a Housing Impact Fee resolution that would roughly double the existing Housing Impact Fees and continue a two-tier approach where small developments pay half of that fee. The Council directed that the Housing Impact Fee resolution be considered at the December 11, 2012 Council meeting on the same agenda item as the rental housing impact fee.

A rental housing impact fee has been under consideration for over a year and a Nexus-Based Affordable Housing Fee Analysis was prepared for this study. Council review has included six meetings to get public input and discuss fee impacts and policy options. New ownership housing development and nonresidential development in Mountain View have a requirement to mitigate their affordable housing impacts. The proposed rental housing impact fee would require affordable housing mitigation for new apartment development as is required for other types of development in Mountain View.

Council reports prepared for the November 13, 2012 meeting for the Housing Impact Fee and rental housing impact fee are attached (Attachments 3 and 4). These reports contain the Jobs Housing Nexus Study prepared by Keyser Marston Associates (KMA) in November 2012 and the Nexus-Based Affordable Housing Fee Analysis completed by Economic and Planning Systems (EPS) in September 2011.

ANALYSIS

The analysis section contains three subsections:

- Discussion of possible increases to the Housing Impact Fees for new nonresidential development;
- Discussion of a rental housing impact fee for new apartment development; and
- New information on the overlap effects of the two housing impact fees, need for affordable housing funds, and comparison of affordable housing fees for all three types of development: ownership housing, rental housing, and nonresidential.

Housing Impact Fee for Nonresidential Development

Background

At the November 13, 2012 Study Session, the 2012 Jobs Housing Nexus Study and a supplemental memo also prepared by KMA were presented to the City Council. The Jobs Housing Nexus Study documented the maximum supported fees for Office/High Tech/Industrial, Commercial/Retail/Entertainment and Hotel development. The maximum supported fees are not the recommended fees but rather the thresholds below which Housing Impact Fees may be assessed. When Mountain View's Housing Impact Fees were first adopted in 2001, they ranged from 7 percent to 35 percent of the maximum supported fees and have continued to remain well below those maximum supported fee levels.

One of the significant findings of the updated 2012 nexus study was the large increase in the percentage of low-income commercial, retail, entertainment, and hotel workers who earn less than 80 percent AMI. Wages for these workers have remained relatively stagnant for the past 11 years, while median incomes in Santa Clara County have increased substantially.

Fee Comparisons

At the Study Session, the Council reviewed three process options for updating the Housing Impact Fees and chose the option of directing that a fee increase resolution be prepared for Council consideration on December 11, along with the rental housing impact fee. Council directed that existing Housing Impact Fees be roughly doubled and the resolution includes a $15.00 per square foot fee for Office/High Tech/Industrial development and $5.00 per square foot fee for Commercial/Retail/Entertainment and Hotel development. Table 1 shows how these proposed fees compare with housing impact fees in four nearby cities.

Table 1: Proposed Fees Compared with Other Cities

Cities	Office/High-Tech/ Industrial (Per Square Foot)	Retail/Entertainment/Hotel (Per Square Foot)
Mountain View	**$15.00**	**$5.00**
Cupertino	$5.23	$5.23
Sunnyvale	$9.08	N/A
Menlo Park	$14.71	$7.98
Palo Alto	$18.44	$18.44

At the Study Session, the Council also considered two other fee options:

- Increasing fees based on the average impact fees for the four nearby cities in Table 1; and

- Increasing fees based on applying the same percentage of maximum supported fees from the 2001 nexus study to the maximum supported fees in the 2012 nexus study.

Table 2 shows the proposed fees in the attached draft resolution compared with these other fee options.

Table 2: Alternative Housing Impact Fee Levels

Development Types and Existing Per-Square-Foot Fees	Maximum Fee Allowed per the 2012 Nexus Study	Per Square Foot Fees in Resolution	Average of Other Cities' Fees	Percentage of Maximum Supportable Fees from 2001 Applied to 2012 Maximum Allowed Fee
Office/High Tech $7.43 (First 10,000 square feet—$3.71)	$59.31	$15.00	$11.87	$20.76
Retail/Entertainment $2.47 (First 25,000 square feet—$1.24)	$243.61	$5.00	$10.55	$31.67
Hotel $2.47 (First 25,000 square feet—$1.24)	$44.69	$5.00	$10.55	$6.26

<u>Impact Fee Options</u>

<u>Fee Levels</u>. In setting the Housing Impact Fees, the Council could adopt the fees in the draft resolution or choose any of the other fee options. All of the Housing Impact Fee options are significantly below the maximum supported nexus amounts for the Office/High Tech/Industrial, Commercial/Retail/Entertainment and Hotel development categories.

<u>Lower Fees for Small Projects</u>. At the November 13 Study Session, the Council also expressed interest in maintaining the existing two-tier fee structure, where Office/High Tech/Industrial developments with less than 10,000 square feet and Commercial/Retail/Entertainment and Hotel developments with less than 25,000 square feet are charged half the fee of larger developments. The draft resolution contains this two-tier fee approach.

Only Office Fee Increase. A Councilmember at the Study Session suggested only increasing Housing Impact Fees for Office/High Tech/Industrial developments and not increasing impact fees for Commercial/Retail/Entertainment and Hotel development. Commercial/Retail/Entertainment development generates the highest number of low-income workers, but it also generates sales tax revenues. In addition, it is not clear how increasing impact fees for this type of development would affect the revitalization of the El Camino Real commercial corridor or the City's ability to attract a full service, luxury hotel, which has been a long-held community goal. The draft resolution contains fee increases for all nonresidential development, as directed by Council, and would need to be changed if the Council decides not to increase fees for certain development.

Effective Date of New Housing Impact Fees

If Council adopts the attached resolution, the new fees would go into effect February 9, 2013, 60 days after adoption. The City's existing Housing Impact Fee Ordinance specifies that the Chief Building Official shall use the fees in effect by resolution of the City Council at the time of issuance of the building permit or, if no building permit is required at the time of issuance of a use of other discretionary permit. Projects issued building permits on and after February 9 would be subject to the new fees.

Rental Housing Impact Fee

Background

The nexus analysis for the rental housing impact fee found that the maximum supportable fee for new apartment development was 12.9 percent to 16.6 percent of the appraised value, or $45.04 to $70.85 per habitable square foot, depending on the size of the unit. The fee analysis found that a rental impact fee of 4.6 percent of appraised value has roughly the same economic impact as the City's previous affordable housing requirement for rental housing, and this fee was estimated to equate to $18.95 per gross building square foot. At the June 5 meeting, the Council directed that this fee be used for the proposed rental housing impact fee resolution.

Proposed Fee

The City received correspondence from a number of apartment developers who requested clarification on how the rental impact fee would be calculated. The resolution included with the November 13 Council Report indicates that the fee was based on habitable building area, which would only include the square footage of the unit, not the corridors, common areas, stairways, etc. Habitable square footage is used for rental impact fees by other cities and for the calculation of school impact fees.

After reviewing the impact fees based on the habitable square footage versus the gross square footage, it was found that the $18.95 fee included in the November 13 resolution was based on the 1,100 gross square footage of a two-bedroom unit, not the 950 habitable square footage. It is recommended to use the habitable square footage, which would be $21.94 per square foot. The calculations for this are shown in Table 2 of the attached EPS memo (Attachment 5). This adjustment does not significantly alter the fees that would be charged to an apartment project since habitable area can be 14 percent to 25 percent less than a project's gross square footage.[1] The resolution has been updated to include the $21.94 per habitable square foot. A comparison of a $21.94 fee with other cities is shown in Table 3.

Table 3. Comparison of Rental Housing Impact Fees

	San Carlos[2]	Mountain View	Fremont[3]	Walnut Creek
Fee per Square Foot	$23.54 to $28.27	$21.94	$17.55	$15.00

The rental housing impact fee also would only be charged on net new habitable square footage. If existing apartments are being removed on the same site, the habitable square footage of the existing apartments would be subtracted from the habitable square footage of the new development and the fee would be charged on the net new habitable square footage.

As noted in previous reports, the potential drawback of a $21.94 per square foot fee (approximately 4.6 percent of average appraised value) is that it may reduce the developer's profit margin to the extent that it could affect the feasibility of some apartment projects in the pipeline. A fee of 3 percent of average appraised value would be $14.30 per square foot and would be closer to the Affordable Housing Impact Fees for ownership housing and the proposed fees for nonresidential development, as shown in Table 4 later in this report.

---

[1] An estimate in the November 13 Council Report of total rental housing impact fees that could be produced by six pending apartment projects based on $18.95 per gross square footage was $15.5 million. A new total fee estimate for these same projects based on $21.94 per habitable square foot is $15.3 million.

[2] San Carlos' fee per square foot is for projects with 10 units or more. Projects less than 10 units have fees higher and lower than the range shown in the table.

[3] Fremont's fee will increase to $19.50 per square foot on July 1, 2013.

Response to Correspondence

The City received correspondence from the League of Women Voters of the Los Altos-Mountain View Area and the Affordable Housing Advocates supporting the rental housing impact fee. The City also received correspondence from Urban Housing Group, Pinnacle Stone and Tile, and the Building Industry Association of the Bay Area, which raised concerns about the nexus study and proposed fee. A memo from EPS addressing their comments on the nexus study are attached (Attachment 5). EPS and City staff believe that the nexus study is reasonable, using commonly accepted methodology, and provides substantial evidence for the proposed rental housing impact fee.

New Information

The Council requested additional information on the possible overlap effects of double counting worker households for the rental housing impact fee and Housing Impact Fee for nonresidential development. Councilmembers also asked how much funding is needed for affordable housing and for a comparison of affordable housing fees for all three types of development: ownership housing, rental housing, and nonresidential development.

Fee Overlap

A memo analyzing the potential overlap of the two nexus studies and how this could affect the proposed impact fees has been prepared by KMA and is attached (Attachment 6). The analysis found that the areas of most potential overlap would be with workers in commercial, retail, entertainment, and medical offices. Even given a theoretical 100 percent overlap in those areas, which is highly unlikely, it was found that the fees would still be well below the maximum supported nexus fees.

Funding Need

Councilmembers have asked how much funding is needed to meet the City's affordable housing needs. In the June 5 Council Report, an analysis indicated that it would take $19 million annually to support enough new affordable units to satisfy the regional housing goals in the City's Housing Element. Affordable housing funds from the Below-Market-Rate (BMR) Housing Program and the existing Housing Impact Fees provide only a small percentage of the annual funding needed and those funds are tied to development activity, which can fluctuate significantly. Considering just new rental development, it would require $39.08 million in affordable housing funds to fully mitigate the affordable housing impacts of the six apartment projects in the pipeline.[4] If the Council adopts a rental housing impact fee of $21.94 per habitable square foot and all six apartments are actually built, the total fees generated would be $15.3 million, significantly less than the total funding needed.

While it is possible that some affordable housing projects will receive additional sources of funds (tax credits, State bond funds, HOME, and CDBG), these sources are not reliably available and have been declining due to State and Federal budget cuts. Applications for these funds are also highly competitive, with demand far exceeding supply, and in recent years the value of tax credits to projects has fluctuated greatly. Given this, it is clear that the proposed impact fees, which will provide approximately 40 percent of the required subsidy, do not exceed the funds required to mitigate the impact of new rental housing on the need for affordable housing.

<u>Comparison of Housing Fees</u>

Table 4 shows the proposed rental housing impact fee, the proposed increases in Housing Impact Fees, and a rough average of the BMR in-lieu fees for ownership development in the last couple years. [5]

Table 4. Affordable Housing Fees Per Square Foot

Ownership BMR In-Lieu Fees	Proposed Rental Housing Impact Fee	Proposed Housing Impact Fee Office/Industrial	Proposed Housing Impact Fee Com/Retail/Ent/Hotel
$16.14	$21.94	$15.00	$5.00

The proposed rental housing impact fee is the highest of the affordable housing fees on a square-foot basis. As noted earlier, Council could consider an alternative fee of 3 percent of average appraised value rental impact fee, which would be equivalent to $14.30 per habitable square foot and is more consistent with the other affordable housing fees.

---

[4] The six apartment projects would create 930 net new units that would generate the need for 143 new units for low-, very low-, and extremely low-income households, which would require a $39.08 million subsidy.

[5] The BMR in-lieu fee estimate was based on the average per-square-foot BMR in-lieu fee of two projects at the low and high end of the cost spectrum: the townhomes at Rockcress Villa on Rock Street and single-family homes in the high-end Enclave development on Grant Road.

FISCAL IMPACT

Fees generated by a rental housing impact fee and increases to the Housing Impact Fee must be used for housing programs and projects that benefit the City's lower-income households. With the six apartment projects in the development review pipeline, it is estimated that the proposed rental housing impact fee could generate a total of about $15.3 million in affordable housing funds if all of these projects are built.[6] It is not anticipated that this level of new apartment development will continue since apartment development happens in market cycles. Prior to recent projects, there were no apartments developed in Mountain View for 10 years. In the next 2 years, increases in the Housing Impact Fees could generate about $2.3 million more in funding than the existing fees based on the projects that are approved or have submitted formal applications. Office and commercial development also goes through production cycles. From 2002 to 2011, only $560,000 in Housing Impact Fees had been generated by new office or commercial development. Much of the office development in the pipeline has taken much longer to build than anticipated.

CONCLUSION

At the December 11 public hearing, the Council will be considering two resolutions: one to increase existing Housing Impact Fees on nonresidential development and the other to enact a rental housing impact fee on new market-rate rental development. Nexus studies on the affordable housing impacts of new rental housing development and new nonresidential development were completed and identified the maximum supportable impact fees to mitigate the affordable housing impacts. The impact fees that are contained in the attached resolutions are significantly lower than the maximum fees in the nexus studies. If the Council adopts the resolutions, the rental housing impact fee and increases to the Housing Impact Fees would go into effect on February 9, 2013.

ALTERNATIVES

1. Adopt increases to the Housing Impact Fees and do not adopt a rental housing impact fee.

2. Adopt a rental housing impact fee and do not increase the Housing Impact Fees.

---

[6] The revenue estimate is based on 930 net new units and a development mix of 10 percent studios (450 habitable square feet), 60 percent one-bedroom (700 habitable square feet), and 30 percent two-bedroom (950 habitable square feet).

3. Adopt increases to the Housing Impact Fee for office/high tech development and do not increase the impact fees for commercial/retail/entertainment and hotel development.

4. Adopt increases to the Housing Impact Fees and a rental housing impact fee at levels other than those proposed in the resolutions.

5. Do not adopt a rental housing impact fee or increases to the Housing Impact Fees.

6. Provide other direction to staff.

PUBLIC NOTICING

Notices have been sent 14 days prior to the public hearing to major residential developers, interested individuals, the Chamber of Commerce, and affordable housing advocacy groups. A notice has been placed in a local paper and the meeting agenda and staff report have been posted on the City web page and announced on the local KMVT cable channel.

Prepared by:

Linda Lauzze
Administrative and Neighborhood
Services Manager

Regina Adams
Senior Planner

Approved by:

Randal Tsuda
Community Development Director

Daniel H. Rich
City Manager

LL-RA/7/CAM/860-12-11-12CR-E

Attachments:
1. Resolution to Adopt Increases to the Housing Impact Fees
2. Resolution to Adopt a Rental Housing Impact Fee
3. Council Study Session Memo—November 13, 2012—Item 3.1
4. Council Report—November 13, 2012—Item 5.2
5. Economic and Planning Systems (EPS) November 29, 2012 Memo on Nexus Study Comments
6. Keyser Marston Associates (KMA) November 28, 2012 Memo on Fee Overlap Potential

Attachment 1

CITY OF MOUNTAIN VIEW
RESOLUTION NO.
SERIES 2012

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MOUNTAIN VIEW
TO AMEND THE EXISTING HOUSING IMPACT FEE SCHEDULE
FOR NEW NONRESIDENTIAL DEVELOPMENT

WHEREAS, the City Council adopts a Master Fee Schedule as a part of its annual budget, fixing and establishing fees, rates, and charges for goods and services provided by the City of Mountain View; and

WHEREAS, on December 11, 2001, the City Council approved an Ordinance, amending Chapter 36, Article X, of the City of Mountain View's Municipal Code that became effective on January 8, 2002, and established Housing Impact Fees for three categories of nonresidential developments: (1) Office/High Tech/Industrial; (2) Commercial/Retail/Entertainment; and (3) Hotel; and incorporated those fees into the City of Mountain View's Master Fee Schedule; and

WHEREAS, the Housing Impact Fees may be updated or adjusted upon Council approval of a resolution; and

WHEREAS, on October 25, 2011, the City Council adopted the Housing Element of the General Plan in compliance with State law, which includes the goal of encouraging the development of affordable housing to meet the City's assigned share of the regional housing need and, to implement that goal, includes policies to collect Housing Impact Fees to provide housing units that are affordable to households with extremely low, very low, and low incomes; and

WHEREAS, the lack of affordable housing in Mountain View forces many residents to pay a very high percentage of their income for housing or to commute considerable distances, adding to air pollution and traffic congestion in Mountain View and adjacent communities; and

WHEREAS, the lack of affordable housing has made it more difficult for businesses in Mountain View to recruit workers from out of the area, especially workers in lower-paying jobs, potentially affecting the economic vitality of the community; and

WHEREAS, housing units affordable to households with extremely low, very low, and low incomes are in very short supply in Mountain View and other available housing subsidies are inadequate to meet the need created by new nonresidential development; and

WHEREAS, the City Council has considered a Jobs-Housing Nexus Study, dated November 2012 ("Nexus Study") and two Supplemental Memorandums entitled "Supplemental Discussion of Factors Contributing to High Supported Affordable Housing Nexus Costs in Mountain View," dated November 6, 2012, and "Non-Duplication of Proposed Residential and Nonresidential Impact Fees," dated November 28, 2012, all three of which were prepared by Keyser Marston Associates and evaluated the impact of new nonresidential development on the need for affordable housing; and

WHEREAS, the Nexus Study documented a reasonable relationship between the need for affordable housing and the deleterious impacts of new nonresidential development; and

WHEREAS the Nexus Study demonstrated that to fully mitigate the impacts of new nonresidential development on the need for affordable housing, Housing Impact Fees equivalent to $59.31 per square foot for Office/High Tech/Industrial development, $243.61 per square foot for Commercial/Retail/Entertainment development, and $44.69 per square foot for Hotel development would be needed; and

WHEREAS, to implement the affordable housing goals, policies, and objectives of the Housing Element, the City Council has determined that it is necessary to increase the existing Housing Impact Fees to more fully mitigate the impact of new nonresidential development on the need for affordable housing in Mountain View; and

WHEREAS, to ensure that nonresidential projects remain economically feasible, the adopted Housing Impact Fees are lower than the amount needed to fully mitigate the impacts for each type of nonresidential development, as shown in the Nexus Study; and

WHEREAS, to encourage and support small business development, the adopted Housing Impact Fees assessed on Office/High Tech/Industrial developments with less than 10,000 square feet and on Commercial/Retail/Entertainment and Hotel developments with less than 25,000 square feet shall continue to be half of the amounts charged to larger developments; and

WHEREAS, the use of the Housing Impact Fees will be restricted to mitigating the affordable housing impacts of nonresidential developments and will be deposited into the City's Affordable Housing Fund to be used for affordable housing programs and projects for low-, very low-, and extremely low-income households; and

WHEREAS, the City Council has held a Study Session on November 13, 2012 and two public hearings—one on June 5, 2012 and another on December 11, 2012—and has considered information in Council Reports on adjustments to the Housing Impact Fees, dated December 11, 2012; November 13, 2012; and June 5, 2012; and

WHEREAS, at least 10 days prior to the date this resolution is to be considered, data was made available to the public indicating the amount of cost, or estimated cost, required to provide the affordable housing for which the impact fee is levied and the revenue sources anticipated to provide the affordable housing, including General Fund revenues in accordance with Government Code Section 66019; and

WHEREAS, at least 14 days prior to the date this resolution is being heard, notice was mailed to those persons or organizations who had requested notice of these fees, in accordance with Government Code Section 66019; and

WHEREAS, notice of the hearing on the proposed Housing Impact Fees was published twice in the manner set forth in Government Code Section 6062(a) as required by Government Code Section 66018;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Mountain View:

1. **Adoption of Amended Housing Impact Fee Schedule.** The Housing Impact Fee Schedule for the Community Development Department is hereby amended as shown in Exhibit A.

2. **Effective Date.** The effective date of this resolution is February 9, 2013.

– – – – – – – – – – –

RA/7/RESO
893-12-11-12R-E

Exhibit A to Attachment 1

FEE SCHEDULE FOR COMMUNITY DEVELOPMENT DEPARTMENT
HOUSING IMPACT FEE
AS ADOPTED DECEMBER 11, 2012

Exhibit: A

Department Name: Community Development

Enabling Legislation

State Code § (if any)	MVCC §§	Title of Fee	Amount of Fee	Fee Basis	Effective Date
§ 66000	§ 36.91.b.2	**HOUSING IMPACT**			
		Office/High Tech/ Industrial —First 10,000 Square Feet —10,000+ Square Feet	 $7.50 $15.00	 Per Habitable Square Foot* Per Habitable Square Foot*	 2/9/2013 2/9/2013
		Commercial/Retail/ Entertainment —First 25,000 Square Feet —25,000+ Square Feet	 $2.50 $5.00	 Per Habitable Square Foot* Per Habitable Square Foot*	 2/9/2013 2/9/2013
		Hotel —First 25,000 Square Feet —25,000+ Square Feet	 $2.50 $5.00	 Per Habitable Square Foot* Per Habitable Square Foot*	 2/9/2013 2/9/2013

* Calculated on the net new habitable building area on new nonresidential development (new habitable square footage minus existing habitable square footage that is replaced on the same site).

Attachment 2

CITY OF MOUNTAIN VIEW
RESOLUTION NO.
SERIES 2012

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MOUNTAIN VIEW
ESTABLISHING A RENTAL HOUSING IMPACT FEE
FOR NEW MARKET-RATE RENTAL HOUSING DEVELOPMENT

WHEREAS, the City Council adopts a Master Fee Schedule as a part of its annual budget, fixing and establishing fees, rates, and charges for goods and services provided by the City of Mountain View; and

WHEREAS, on October 25, 2011, the City Council adopted the Housing Element of the General Plan in compliance with State law, which includes the goal of encouraging the development of affordable housing to meet the City's assigned share of the regional housing need and, to implement that goal, includes policies to collect affordable housing impact fees to provide housing units that are affordable to households with extremely low, very low, and low incomes; and

WHEREAS, to meet the affordable housing goals, policies, and objectives of the Housing Element for new rental housing development, the City Council has determined that it is necessary to adopt a rental housing impact fee to mitigate the impact of new rental development on the need for affordable housing in Mountain View; and

WHEREAS, land prices are a key factor preventing development of new affordable housing. New rental housing construction in Mountain View that does not include affordable units aggravates the existing shortage of affordable rental housing by absorbing the supply of available residential land. This reduces the supply of land for affordable housing and increases the price of the remaining residential land. At the same time, new market-rate rental housing development increases the demand for goods and services in the City, increasing local service employees, many of whom cannot afford housing in Mountain View; and

WHEREAS, the City Council has considered the "Nexus-Based Affordable Housing Fee Analysis," dated September 29, 2011, and the memorandum entitled "Draft Technical Memorandum," dated November 29, 2012, and prepared by Economic and Planning Systems, Inc. (together the "Nexus Study"), which demonstrated that to fully mitigate the impacts of new rental housing development on the need for affordable housing, a rental housing impact fee equivalent to $41.00 to $58.00 per square foot of new market-rate rental development would be needed; and

WHEREAS, the Nexus Study demonstrates that a reasonable relationship exists between the need for affordable housing and the deleterious impacts of new market-rate rental housing development within the City. A reasonable relationship also exists between the fee's use and the impacts of new market-rate rental housing development. Development of new rental housing results in more residents living in the City. The residents who move into new rental housing developments will increase the demand for services provided by the public and private sectors. Some of the public and private sector employees needed to meet the needs of the new City residents earn incomes that only allow these employees to afford housing for moderate-, low-, very low-, and extremely low-income housing. This type of affordable housing is in very short supply within Mountain View, and other available housing subsidies inadequate to meet the need created by new rental housing developments. The rental housing impact fee will be used to help increase the supply of affordable housing in the City to meet the increased need generated by new rental housing developments; and

WHEREAS, the City Council has considered Council reports on the rental housing fee dated December 11, 2012, November 13, 2012, June 5, 2012, November 1, 2011, and April 26, 2011; held three Study Sessions on April 26, 2011, May 5, 2011, and November 1, 2011; and held two public hearings on July 5, 2011 and December 11, 2012 to consider a rental housing impact fee; and

WHEREAS, to implement the affordable housing goals, policies, and objectives of the City's Housing Element, the City Council has determined to adopt and implement a rental housing impact fee for all new market-rate rental housing developments; and

WHEREAS, to ensure that rental residential projects remain economically feasible, the City Council adopted a rental housing impact fee that is lower than the amount needed to fully mitigate the impacts of new rental housing development as shown in the Nexus Study; and

WHEREAS, all rental housing impact fees shall be deposited into the City's affordable housing fund to be used for affordable housing programs and projects for low-, very low-, and extremely low-income households; and

WHEREAS, at least 10 days prior to the date this resolution is to be considered, data was made available to the public indicating the amount of cost, or estimated cost, required to provide the affordable housing for which the impact fee is levied and the revenue sources anticipated to provide the affordable housing, including General Fund revenues in accordance with Government Code Section 66019; and

WHEREAS, at least 14 days prior to the date this resolution is being heard, notice was mailed to those persons or organizations who had requested notice of these fees, in accordance with Government Code Section 66019; and

WHEREAS, notice of the hearing on the proposed rental housing impact fees was published twice in the manner set forth in Government Code Section 6062a as required by Government Code Section 66018;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Mountain View:

1. **Definition: Rental Housing Development.**

   a. A Rental Housing Development is a development project involving the creation of one or more dwelling units that cannot be sold individually.

2. **Adoption of Affordable Rental Housing Impact Fee.** A rental housing impact fee of $21.94 per habitable square foot for all new market-rate rental housing developments is hereby adopted as set forth in the schedule attached hereto as:

   Exhibit A: Fee Schedule for Community Development Department—Rental Housing Impact Fee, as adopted December 11, 2012.

3. **Calculation of Fees.** Habitable square footage means the total occupied floor area of each rental unit in a project. The rental housing impact fee shall be calculated on the net new habitable floor area of new rental development that replaces existing rental units on the same site.

4. **Fee Payment Due Date.** All rental housing impact fees shall be paid prior to issuance of the first Final Certificate of Occupancy for the development.

5. **Annual Fee Adjustment.** The rental housing impact fees shall be increased annually by the percentage change in the Consumer Price Index for the San Francisco-Oakland-San Jose area for the previous year. In addition, the City Council may, from time to time, review and adjust the rental housing impact fee by resolution.

6. **Consideration to Rescind Fee.** If State legislation is adopted that reinstates the City's option of requiring developers of market-rate housing to provide affordable rental housing on-site to mitigate impacts, the Council shall consider amending the Master Fee Schedule to rescind this rental housing impact fee.

7. **Alternatives to Payment of Fee.** As an alternative to the payment of a rental housing impact fee, a developer of a residential rental project may submit a request to mitigate the impacts of such development through the construction of affordable rental housing units, the dedication of land, or provision of other resources. Such request may be granted in the sole discretion of the City Council if the City Council determines that such alternative will mitigate the impact of the project on the need for affordable housing and will further affordable rental housing opportunities in the City.

   If the developer proposes to construct any rental affordable housing units as an alternative to the payment of the rental housing impact fee, the developer shall enter into a contract with the City consistent with the Costa Hawkins Act, agreeing to limitations on rent in consideration for assistance as specified in that Act. The rental affordable units shall be subject to a rent regulatory agreement with a term of 55 years and shall be required to be rented to low-income households at affordable rents consistent with Health and Safety Code Section 50053 and regulations adopted by the California Department of Housing and Community Development (California Code of Regulations Title 25, Sections 6910 through 6924).

8. **Effective Date.** This resolution shall take effect on February 9, 2013.

– – – – – – – – – – –

JLQ/7/RESO
010-11-13-12R-E

Exhibit A to Attachment 2

FEE SCHEDULE FOR COMMUNITY DEVELOPMENT DEPARTMENT
RENTAL HOUSING IMPACT FEE
AS ADOPTED DECEMBER 11, 2012

Exhibit: A

Department Name: Community Development

Enabling
Legislation

State Code § (if any)	**MVCC §§**	**Title of Fee**	**Amount of Fee**	**Fee Basis**	**Effective Date**
§ ___________	§ _______	Rental Housing Impact	$21.94	Per Habitable Square Foot*	2/9/2013

*Calculated on the net new habitable building area of all new market-rate rental housing developments (new habitable square footage minus existing habitable rental square footage that is replaced on the same site).

LL/7/CDD
860-11-13-12FS-E

DRAFT TECHNICAL MEMORANDUM

To: Linda Lauzze, City of Mountain View

From: Walter Kieser and Darin Smith

Subject: Response to Comments regarding City of Mountain View Nexus-Based Affordable Housing Fee for Rental Development; EPS #20063

Date: November 29, 2012

The Economics of Land Use

Economic & Planning Systems, Inc.
2501 Ninth Street, Suite 200
Berkeley, CA 94710-2257
510 841 9190 tel
510 841 9208 fax

Berkeley
Denver
Los Angeles
Sacramento

www.epsys.com

In 2010, Economic & Planning Systems, Inc., (EPS) was retained by the City of Mountain View (City) to conduct a nexus study documenting the impact that development of market-rate rental and for-sale housing has on the demand for below-market-rate housing and to calculate a defensible nexus-based fee that could be charged to market-rate development. The rental nexus study continues to be considered by Mountain View's City Council, and has generated comments from stakeholders in the construction industry. This memorandum responds to the technical comments received in November 2012 from representatives of the Building Industry Association—Bay Area (BIA), the consultants at Development & Financial Advisory (DevFA) retained by the BIA, and developers at Urban Housing Group.

BIA Letters dated November 12, 2012

The BIA letter from Crisand Giles, Director of Government Affairs, cites several objections to the nexus study, including its perceived inconsistency with the Mitigation Fee Act, the status of the fee as a "tax" on new development, and a repeat of DevFA's observations regarding the appropriateness of the data used to calculate the fees.

The letter indicates that the nexus study "attempt[s] to connect building additional residential housing with an increased need for more affordable housing," and that the same argument "could just as easily support an increased need for affordable housing if the population increases from any source . . . for instance, if the size of existing households increased, or if more residents shared their homes." The actual linkage in EPS's nexus study is between the increase in aggregate spending associated with the new households occupying the units and the need for lower wage workers to provide goods and services to those households. An increase in population without an increase in aggregate spending would not yield the results presented in the nexus study, but EPS asserts that new housing does increase aggregate incomes and spending in Mountain View because the City does not have a history of housing growth without net household growth (as might occur if old houses were simply abandoned in favor of new units, rather than re-occupied). Moreover, the letter's argument that intensification of existing population or increases in income *without* the addition of new housing units would yield impacts in the community is a valid argument, but does not affect the validity of the nexus study in relation to new development; it simply means that there may be additional needs for affordable housing that are not created by new development and cannot be mitigated by an impact fee on new development. The same point could be made regarding the imposition of school fees, park fees, traffic fees, etc.: that other factors may also cause impacts that are not captured by an impact fee on new development. Additional impacts created by other factors, however, do not affect the validity of these fees, so long as the fees are mitigating only impacts created by new development.

The letter further indicates that the City's proposal to set the applicable fee as a percentage of unit market value, which was then translated as a fee per-square-foot, constitutes a "tax" on new rental housing. In the nexus study, the impact of the new units on job creation and affordable housing demand is calculated as a factor of the income and spending of the units' occupants, which then relates to the value of the unit. The nexus study calculates these relationships at different unit sizes (1-Bedroom, 2-Bedroom, etc.) based on prevailing rental price points, and then compares the results to the estimated values of those units. This was done to allow comparison with the City's long-standing imposition of a fee on for-sale housing, which the City has set at 3 percent of the units' sale value. The actual "maximum" fee supported by the nexus analysis was several times higher than the levels proposed by Council ($48,000 for a two-bedroom unit, rather than the $18,000 that may result from the fee as proposed by City Council). As such, the fee proposed by City Council falls well within the maximum indicated by the nexus study. The mere fact that there is a mathematical relationship between the result of the analysis or Council's proposed fee level and the value of the unit, and that this result can be expressed as a percentage of the unit value, does not mean that the fee is a tax; a charge imposed as a condition of development is not a tax. The Council's proposal to impose the fee on a per-square-foot basis eases the fee's implementation and provides certainty to developers regarding their costs, rather than having the fee uniquely calculated for each and every rental project proposed in the City. Further, to avoid creating barriers to rental housing development, the Council proposed that the fee level have a roughly equivalent economic burden on developers as did the City's previous requirements, despite the fact that the nexus study could justify a higher (and thus more burdensome) fee.

The letter additionally indicates that "while the use of impact fees . . . to correct any existing affordable housing shortage isn't legal, the study offers no evidence of a historical relationship between the construction of new housing and the demands for affordability." In fact, this is precisely what the nexus study aims to do – to demonstrate in detail how the spending of new households results in demand for goods and services, and that the employees providing those goods and services cannot always afford market-rate housing. While the study is prospective rather than retrospective (i.e., "historical"), it applies recognized relationships between the prices of homes, incomes and spending patterns of occupants, total sales and wage costs of different types of businesses, and average individual and household wages based on household sizes and formation rates, to estimate the number of low wage worker households that result from population growth facilitated through new housing construction.

Finally, this letter states that "projects currently in the development pipeline will be unduly burdened with the Fee, resulting in a special tax that is roughly $18,000 per rental unit." In the past, starting in 1999, the City required new housing projects to provide at least 10 percent of units at below-market-rate (BMR) prices. As noted above, the fee proposed by City Council is intended to reflect a similar cost burden to that under the previous requirement. As such, EPS believes that the fees proposed by City Council do not represent an "undue burden" or reflect a significant departure from the long-standing economics of development in Mountain View

Other comments in this letter pertain to legal arguments or more specific technical items noted in DevFA's peer review of our work, and will be addressed below. BIA's General Counsel, Paul Campos, also sent a letter dated November 12, 2012. Aside from additional citations and interpretations of case law that support their various legal arguments, the Campos letter offers little that was not already included in the letter from Crisand Giles. Similarly, the City received an email from Scott Cheeseman, President and CEO of Pinnacle Stone and Tile, repeating many of the same concerns expressed in the BIA's communications and the consultant report from Development & Financial Advisory, discussed below.

Development & Financial Advisory Peer Review dated November 2012

As noted above, the BIA contracted the consulting firm of Development & Financial Advisory (DevFA) to review EPS's nexus study. The BIA letters allude to several conclusions from this review, which EPS addresses below.

The DevFA review's "Methodology and Basis of Fee Analysis" states that the nexus study does not account for existing affordable housing needs or an historical analysis of the connection between housing construction and the need for affordable units. The EPS nexus study is deliberatively prospective, as it is intended to demonstrate the amount of future affordable demand that may be generated through the addition of future households in Mountain View. It does not, nor should it, suggest that future housing growth would be responsible for addressing existing affordable housing needs in the City.

The DevFA review's "Evaluation of Assumptions" section indicates that the market-rate rental unit cost and value assumptions and relationships between unit values and household incomes used in EPS's nexus study are "within reasonable ranges" based on their research and conversations with developers in the local market. However, DevFA takes issue with the following assumptions:

- **Use of average worker wages:** EPS estimated household spending in 25 different expenses categories, and allocated those expenditures to between one and five different business types (e.g., "housekeeping supplies" may be bought at "building materials dealers," "food and beverage stores," "general merchandise stores," and "miscellaneous stores"). EPS used the average worker wages as representative of each business type, while DevFA asserts that the analysis would be more accurate and yield a lower subsidy amount if it accounted for the total distribution of wages within each type of business. EPS believes that use of average wages is reasonable given data limitations, and in some cases may even *underestimate* the amount of housing subsidy required. DevFA gives the example of four workers in a business, with three earning $30,000 and one earning $150,000. EPS's methodology would apply the average income of $60,000 per worker to the entire business. Based on the housing costs and value calculations by income level in the nexus study, EPS's total subsidy amount would actually be lower than that using the DevFA approach, as shown below. Since the subsidy amount drives the fee calculation, this example suggests that EPS's approach does not systematically overestimate the subsidy requirement, as suggested by the DevFA correspondence.

Table 1: Alternative Wage Distribution Assumption Impacts

	EPS	DevFA
Number of $30K Workers	0	3
Subsidy/Unit w/ $30K Income	$356,016	$356,016
Subtotal Subsidy for $30K Workers	*$0*	*$1,068,048*
Number of $60K Workers	4	0
Subsidy/Unit w/ $60K Income	$192,380	$192,380
Subtotal Subsidy for $60K Workers	*$769,519*	*$0*
Number of $150K Workers	0	1
Subsidy/Unit w/ $150K Income	$0	$0
Subtotal Subsidy for $150K Workers	*$0*	*$0*
Total Subsidy	**$769,519**	**$1,068,048**

- **Household income estimates:** The nexus study assumes that people earning a certain wage generally form households with others earning a similar wage (as may be expected for couples from similar educational or socio-economic backgrounds), and that each new worker household includes 1.57 wage-earners, consistent with Census data for Mountain View. DevFA correctly states that this approach does not account for low-wage workers who make households with other workers earning significantly higher wages, and thus may not require affordable housing. However, it similarly does not account for workers who make households with other workers earning significantly lower wages, and thus may require deeper subsidies. Again, EPS acknowledges that this simplifying assumption does not capture the full complexity of household formation and earnings, but believes that the assumption reasonably reflects an overall average.
- **Dated data sources –** DevFA states that the data used for the spending and employment-generation calculations is dated. EPS began this project for Mountain View in early 2010, and used the most recent information available at that time. That included 2002 data regarding total sales, wage, and worker counts for most industries (from the Census Bureau's "Economic Census"), 2008 data regarding household expenditures (from the Bureau of Labor Statistic's "Consumer Expenditure Survey"), and 2008 data for public sector wages from the California Economic Development Department. To account for these disparate data sources and years, EPS "normalized" the figures using the Consumer Price Index (a generally accepted indicator of inflation) where necessary. While more recent data may now be available, EPS does not believe its use would fundamentally alter the conclusions or our analysis. For example, the largest single category of household expenditure in the nexus study is for "food at home." In 2002, workers in food and beverage stores providing "food at home" had an average wage of $29,583, and such stores had total sales equaling 8.50 times the total worker wages. In 2007—the most recent update available today, but which had not yet been published in 2010—workers in food and beverage stores had wages that actually decreased to $26,299 per worker, and those stores maintained sales to wage ratios at 8.43. As such, use of more recent data would still indicate that food and beverage store workers qualify as "Very Low Income" and yield similar numbers of

workers per dollar spent. Again, the fact that Council has proposed the fee be set well below the maximum fee calculated in the nexus study mitigates against the need to revisit each and every assumption to get the most recent available data.

- **Data inputs not specific to Mountain View –** DevFA states that the expenditure and wage data is not always specific to Mountain View. Where possible, such as for average household sizes, Mountain View data was used. Wage and expenditure data is only available at a larger scale. EPS used the most geographically specific data available, including wage and worker data from Santa Clara County and, where this was not available for specific business types due to restrictions associated with small sample sizes (i.e., the government does not publish data that can be attributed to individual or small groups of businesses), EPS used the next smallest geography available, typically the State. It is not true that EPS used State-level data throughout the analysis.

- **Demand outputs not specific to Mountain View –** DevFA claims that the nexus study takes the position that local household spending will be captured solely within the City of Mountain View. This is not correct. EPS acknowledged that jobs and worker households projected to be generated by new housing occupants in Mountain View may not all be located within the City, stating that:

  > "The City's housing policy requires that new development mitigate for the demand for affordable housing created by construction of new market-rate units. The nexus methodology . . . computes the total income-qualified households generated by market-rate units and calculates the impact fee based on the estimated cost to meet that affordable housing demand. This methodology does not suggest that all lower income service workers serving City residents reside in the City, but it does assume that new development should mitigate for the new affordable housing demand it creates."

  Again, the Council has proposed that the fee be set well below the maximum nexus-based fee calculated by EPS, and this decreases the concern of overestimating the local demand.

- **Demand considerations not addressed** – DevFA also indicates that several specific factors have not been addressed, including the following:

  - *Capacity in the existing system:* DevFA suggests that new spending from new households may simply yield higher sales without increasing employment. This is a possible outcome for a given store, but EPS used demonstrable data-driven relationships of total sales to store employment and wages to calculate employment.

  - *Internet sales:* DevFA indicates that EPS did not specifically account for internet sales to subtract from local sales and employment. The expense categories that generate the largest affordable housing demand are "food at home", "food away from home", "household operations" (such as gardeners and domestic services), "apparel and services" (services including drycleaners, tailoring, etc.), "entertainment fees and admissions", and "educational services." Of these expense categories, only "apparel" has a significant online retailing presence at this time, with the remainder (and businesses in other categories, such as gas stations, car dealers and repair shops, etc.) being provided locally. Moreover, the Council's proposed fee level is well below the maximum fee calculated, offsetting any concern about minor potential over-counting.

- *Sales leakage to neighboring communities:* Some sales will occur in other communities, just as Mountain View businesses will sell goods and services to residents of other cities. As noted above, the nexus study looked at the total affordable housing need created by new development.

- *Housing vacancy rates:* DevFA suggests that vacancy in the housing stock should be accounted for in estimating the overall impact of a new housing project. Marcus & Millichap brokerage reports indicate that overall apartment vacancies in Silicon Valley have been below 4 percent since 2010, so vacancy in new apartment projects is not expected to be significant.

- *Worker profiles such as student workers:* EPS did account for young workers by subtracting 12.5 percent of total retail workers, representing the proportion under age 20 who are unlikely to form their own households.

- **No correlation demonstrated between housing development and the need for affordable housing:** DevFA concludes that the nexus study does demonstrate that "as income increases there is an impact on expenditures for goods and services and increased demand for labor." However, DevFA does not equate this finding, which they do not dispute, to a finding that the construction of new housing (that will bring new households and their income to the City) will increase aggregate income, spending, and jobs. However, the connection between housing growth and increased aggregate spending is supported by basic economic principles. Unless the occupants of new market-rate housing units have zero income, or the new housing units are merely substitutes for existing housing that would then be unoccupied, the aggregate income and spending of Mountain View residents will increase with each new occupied unit.

  DevFA goes on to state that "the only specific reference made by the Fee Analysis related to a tangible relationship between workers and new development is on page 17 [of EPS's nexus study, which] indicates that 'a nexus relationship between construction of new residential units and the need for additional City employment cannot be established.'" This citation is offered out of context, as the remainder of that paragraph specifically states that this finding pertains to employees *of* the City, not *in* the City, and reflects the fact that City employment has actually decreased in recent decades. Again, EPS considers it a reasonable assumption that larger populations require more jobs to provide goods and services—a relationship acknowledged by ABAG and other organizations as they project future retail and service jobs to grow roughly proportionately with household growth.

In sum, EPS does not believe that DevFA's observations individually or collectively represent "fatal flaws" in our analysis, and we further assert that Council's proposal to set the fees well below the maximums calculated in our analysis effectively eliminate any concern that such minor adjustments to the data inputs would influence the proposed fees.

Urban Housing Group letter dated November 13, 2012

Elaine Breeze, Vice President of Development for Urban Housing Group, provided a letter dated November 13, 2012. In that correspondence, she raised the following technical issues:

- Ms. Breeze expressed concern that the analysis overstated the impact of market rate housing upon the need for affordable housing. In a follow-up conversation with Ms. Breeze, it was agreed that the number of people occupying her typical projects (60 percent 1 BR and 40 percent 2 BR yields 1.7 people/unit average) should not be directly compared to the number of workers assumed to be in each new lower-income household (1.57 in our analysis), as these are not meant to be parallel figures for calculations. EPS calculations estimate the incomes required to pay market-rate rents at various unit sizes (regardless of the number of people in that unit's household), apply documented spending patterns to households with those income levels, estimate the number of jobs created by that spending, then estimate the number of households formed by those workers assuming there is more than one worker per household (1.57, based on Mountain View Census demographics). Though her paragraph on this topic reads as if she is revealing a factual inaccuracy in our calculations, this does not appear to be the case. Rather, Ms. Breeze simply finds it difficult to believe that a given rental project has the scale of impact on job creation and affordable housing demand that the nexus study suggests. Also, apparently, she had been referring to an earlier version of the EPS report rather than the September 2011 version that is presented in the staff report. The numbers are slightly different between the versions, but her point is the same: the impacts just seem too high. EPS believes our assumptions and calculations are transparent and reasonable, and are not disputed by any fact Ms. Breeze has offered in her letter.

- Ms. Breeze also expressed concern regarding the proposed fee calculation, suggesting that the fees should be imposed based on net "habitable" unit size rather than gross building square footage so as to not penalize less efficient projects. The following is an example this concept:

Table 2: Proposed Rental Housing Fee Schedule

Unit Type	Assumed SF (Gross)	Assumed SF (Net)	Proposed Fee	Fee/ Gross SF	Fee/ Net SF
Studios	550	450	$10,632	$19.33	$23.63
1 BR	825	700	$15,529	$18.82	$22.18
2 BR	1100	950	$20,845	$18.95	$21.94
3 BR	1500	1350	$23,632	$15.75	$17.51

Table 3: Fees per 2-BR unit at Different Net-to-Gross Building Efficiencies

Efficiency	Assumed SF (Gross)	Assumed SF (Net)	Fee/Gross SF		Fee/Net SF	
			Fee/SF	Fee/Unit	Fee/SF	Fee/Unit
75%	1267	950	$18.95	$24,003	$21.94	$20,843
80%	1188	950	$18.95	$22,503	$21.94	$20,843
85%	1118	950	$18.95	$21,179	$21.94	$20,843
90%	1056	950	$18.95	$20,003	$21.94	$20,843

Table 3 applies the net and gross fee figures from **Table 2**, and indicates that implementing the fee on a gross square footage basis would cost developers more or less for the same size of actual unit (habitable square feet) depending on the size of their common areas. We agree with Urban Housing Group that the most appropriate approach is to impose the fee on a net "habitable" square foot basis.

KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
REED T. KAWAHARA
DAVID DOEZEMA

LOS ANGELES
KATHLEEN H. HEAD
JAMES A. RABE
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMEY

SAN DIEGO
GERALD M. TRIMBLE
PAUL C. MARRA

To: Linda Lauzze
City of Mountain View

From: Kate Funk and David Doezema

Date: December 6, 2012

Subject: Non-Duplication of Proposed Residential and Non-Residential Impact Fees

The following memorandum addresses the issue of potential overlap or partial double counting in the adoption of impact fees to mitigate affordable housing impacts of non-residential and residential development. The fees are supported by separate nexus studies to document the affordable housing impacts of new development. One study is focused on non-residential development and the other on residential development.

The two studies nexus studies are:

- *Jobs Housing Nexus Study, Prepared for the City of Mountain View* ("Job Housing Nexus Study") prepared by Keyser Marston Associates, Inc. (KMA) and dated November 2012. The study was prepared to provide updated nexus support for the City's Housing Impact Fee originally adopted in 2001.

- *Nexus-Based Affordable Housing Fee Analysis* ("Residential Nexus Study") prepared by Economic and Planning Systems, Inc. (EPS) and dated September 29, 2011. The study was prepared to provide nexus support for the proposed Rental Housing Impact Fee on development of new rental housing in the City of Mountain View.

Both studies are based upon quantifying the affordable housing needs of new workers associated with residential and non-residential development. This memorandum addresses the potential for overlap between the workers counted in the two analyses and provides a quantitative analysis to demonstrate that the combined fee requirements currently under consideration by the City would be within the maximum range supported by the nexus, even if there is some overlap.

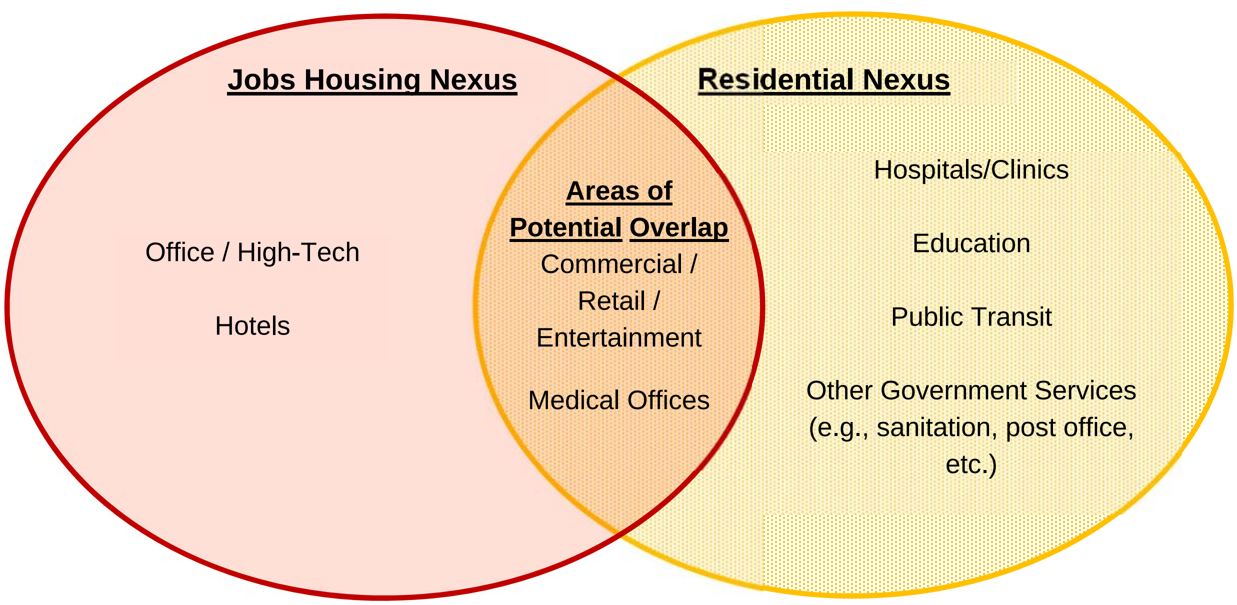
A. Re-Cap of Nexus Concept: Jobs Housing and Residential Nexus Studies

The Jobs Housing Nexus and Residential Nexus Studies share a common conceptual framework. Both studies quantify affordable housing demand of new workers. The Jobs Housing Nexus Study addresses the affordable housing needs of workers in new work-space buildings built in the City of Mountain View. The Residential Nexus Study addresses affordable housing needs for workers in sectors of the economy that serve residents of new market rate residential units built in Mountain View including retail, health care, education, and government.

B. Areas of Possible Overlap

The Jobs Housing Nexus Study counts many jobs not counted in the Residential Nexus Study and vice versa; however, there is a limited degree of overlap. As summarized in Chart A below, the potential for overlap exists primarily in the Commercial / Retail / Entertainment category which accounts for most of the jobs associated with services to new residents.

Chart A - Jobs Counted and Areas of Potential Overlap*



*This chart is intended to provide a general illustration of where jobs are counted in the Jobs Housing Nexus, the Residential Nexus, or both. There may be exceptions to the above categorization.

Office / High Tech jobs counted in the Jobs Housing Nexus Study are generally not counted in the Residential Nexus Analysis, except in miniscule amounts, because firms in these buildings are usually not oriented to local residents. Tech companies, for example, typically serve a national or even global marketplace. Medical offices are an exception to this.

The residential nexus counts many jobs not counted in the jobs housing analysis at all. For example, teachers and other school employees, public transit, and jobs in hospitals. These jobs are not counted in the Jobs Housing Nexus because public sector and non-profits are exempt from the Housing Impact Fee.

C. Theoretical Condition With 100% Overlap

There is theoretically a set of conditions in which 100% of the jobs counted for purposes of the Jobs Housing Nexus could also be counted for purposes of the Residential Nexus Study. For example, a small retail store or restaurant might be located on the ground floor of a new residential building and entirely dependent upon customers from the residential units in the floors above. The commercial space on the ground floor pays the Housing Impact Fee and the residential units above would be subject to the Rental Housing Fee. In this special case, the two programs mitigate the affordable housing demand of the very same workers in the ground floor commercial space. The combined residential and non-residential fee requirements must therefore not exceed 100% of nexus or the total demand for affordable units of employees in the new commercial space.

The set of conditions described above is probably very rare because most retail and other services serve a broader customer base beyond just new residents; for example, businesses and their employees, existing residents, and residents of nearby cities, none of which are captured in the Residential Nexus.

D. Demonstration that Proposed Fee Requirements are Within Nexus

The following analysis demonstrates that the proposed fee requirements do not exceed the maximum supported by the nexus studies. The approach is to convert each proposed fee to a percentage of the supported nexus (see Tables 2 and 3 below for details). Under the theoretical set of conditions in which there is complete overlap in the jobs counted between the two studies, the two fee requirements when added together must not mitigate more than 100% of the affordable housing demand.

1. Jobs-Housing Fee as Percent of Nexus

The proposed increased Housing Impact Fee has been converted into a percentage of the maximum supported nexus in Table 1. The proposed increased Housing Impact Fees represent 25% of the supported nexus for Office / High Tech, 2% of the supported nexus for Commercial / Retail / Entertainment, and 11% of nexus for Hotel. So, the fee mitigates between 2% and 25% of the demand for affordable units generated by new non-residential development.

Table 1 – Proposed Housing Impact Fee as Percent of Maximum Supported Nexus

	Proposed Fee per Square Foot	*Maximum Supported Nexus Fee per Sq.Ft.*	*Proposed Fee as Percent of Maximum Supported Nexus*
Office / High Tech	$15.00	$59.31	25% of nexus
Commercial / Retail / Entertainment	$5.00	$243.61	2% of nexus
Hotel	$5.00	$44.69	11% of nexus

2. Proposed Rental Housing Impact Fee as a Percent of Nexus

Table 2 shows the proposed Rental Housing Impact Fee as a percentage of the maximum supported by the Residential Nexus Analysis. As summarized in the table below, the proposed Rental Housing Fee of $21.94 per net habitable (or rentable) square foot converts to between 31% and 49% of the maximum supported by the nexus. To be conservative, the top of the range applicable to a three bedroom unit was selected for purposes of the analysis in this memorandum. The average is probably closer to 40% given that most projects will include a range in unit sizes with one and two bedroom units the more common size units.

Table 2 – Proposed Rental Housing Impact Fee as Percent of Nexus

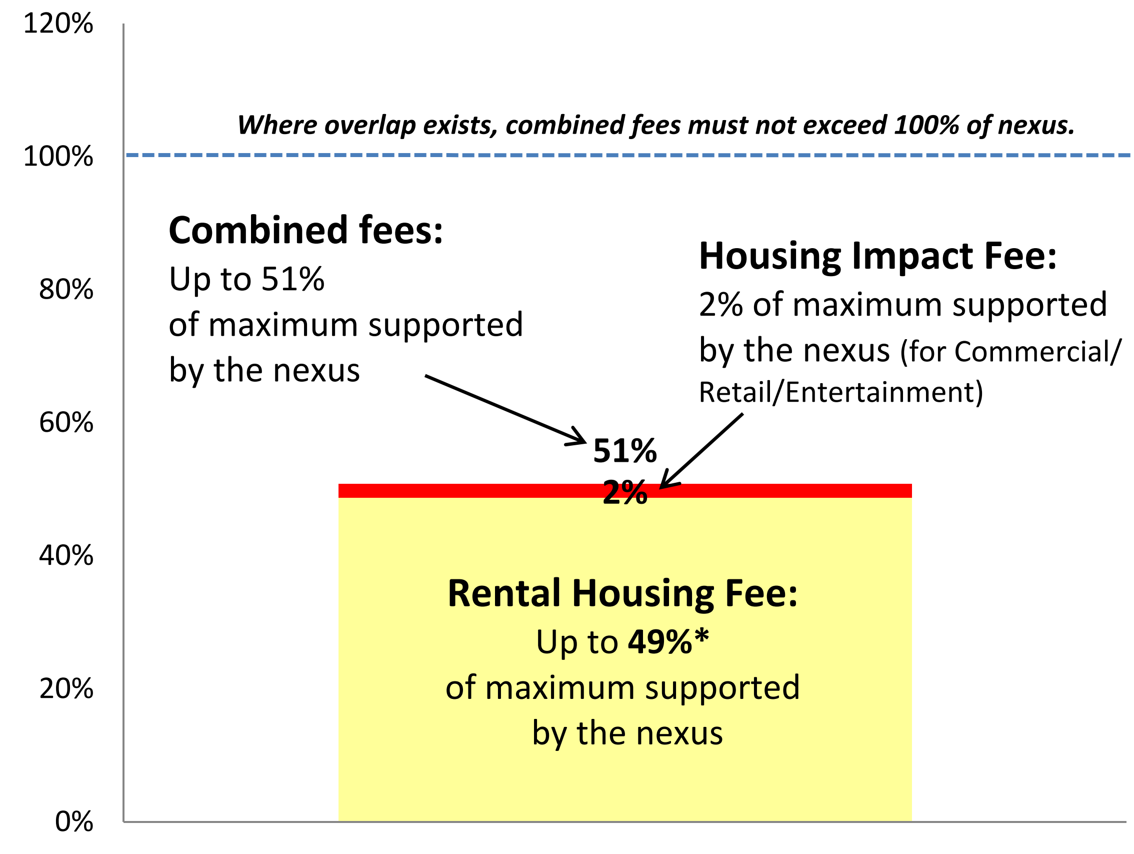
	Maximum Supported Fee Per Unit	*SF Per Unit (Net Habitable or Rentable)*	*Maximum Supported Fee Per Habitable (or Rentable) SF*	*Proposed Fee as Percent of Supported Nexus (at $21.94 per Net Habitable SF)*
Studio	$31,881	450 SF	$70.85 / SF	31% of nexus
One Bedroom	$40,633	700 SF	$58.05 / SF	38% of nexus
Two Bedroom	$48,664	950 SF	$51.23 / SF	43% of nexus
Three Bedroom	$60,804	1,350 SF	$45.04 / SF	**49% of nexus**

Source: Economic and Planning Systems

3. Demonstration That Proposed Fees Within 100% of Nexus on Combined Basis

As shown in Chart B, the proposed fees would satisfy the requirement that no more than 100% of the affordable housing demand be mitigated even under the theoretical set of conditions in which there is complete overlap in the jobs counted between the two studies. Chart B is focused on the Commercial / Retail / Entertainment category where there is the highest probability of overlap. Chart B shows that even if there were complete overlap, no more than of 51% of the affordable housing impacts are mitigated.

Chart B: Demonstration That Proposed Fees Within 100% of Nexus on Combined Basis
Illustration is based on the Commercial / Retail / Entertainment, the Jobs Housing Nexus Study category with the greatest potential for overlap with the Residential Nexus Study



* Highest percentage of nexus per EPS based on 3-bedroom units (range is 31% to 49%)

Although there is far less potential for overlap between the Jobs Housing Nexus Office / High Tech and Hotel categories and the Residential Nexus Study, an analysis was done demonstrating that the combined requirements would also never exceed 100% of the supported nexus. Even in the theoretical situation in which complete overlap could occur, the combined requirements would represent no more than 74% of nexus for Office High-Tech and no more than 60% of nexus for Hotel.

The Residential Nexus Study also provides nexus support for the City's in-lieu fee, which applies to development of new for-sale housing as an alternative to providing affordable units on-site within a project. The in-lieu fee translates into a maximum of 39% of the supported nexus. A similar test can be used to demonstrate that the in-lieu fee combined with the Housing Impact Fee would never exceed 100% of the maximum supported by the nexus, even if there is some overlap in the jobs counted between the supporting nexus studies. The two requirements would represent a maximum of 41% of the supported nexus for the Commercial / Retail / Entertainment where the greatest potential for overlap exists. For Office / High-Tech and Hotel, where overlap is far less likely, the two requirements would represent a maximum of 64% and 50% of the supported nexus, respectively.